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NOTES

WASHINGTON NOTES

A REVOLUTION IN AMERICAN FOREIGN TRADE

As a result of the activities of American exporters of foodstuffs and manufacturers of war materials, the heavy balance of trade against the United States which gave rise to difficulties at the outbreak of the European war, has now been completely offset. Official figures covering our international trade to the end of March, 1915, show that a balance of probably \$600,000,000 in favor of the United States has been produced through the excess of exports to foreign countries, and particularly to European nations, over importations from the same sources. It will be remembered that at the time when exchange was so heavily against the United States as to necessitate the establishment of the "gold pool" in September and October last, careful estimates indicated the existence of a trade balance against the United States aggregating about \$500,000,000. Allowing for probable errors, the subsequent excess of exports over imports has, without question, fully met this indebtedness—which, however, was little more than normal at the time it was incurred—and has furnished a balance in addition, thereby turning the United States, for the time being, into a "creditor country." This revolution in export trade has been effected only at the cost of very drastic changes: (1) in the nature of the goods shipped, and (2) in the destination of these goods. Detailed figures are not yet available for the period to which the statistics in gross are applicable, but some of the fluctuations in our export trade during the seven months from July, 1914, to February, 1915, are very suggestive. The total exports to different countries expressed in values show that our shipments to Germany decreased \$215,000,000; but exports to Norway increased \$14,000,000, to Sweden \$25,000,000, and to Denmark \$31,000,000. Exports to Belgium decreased \$29,000,000, to Austria-Hungary \$11,000,000, to Russia \$10,000,000, and to Canada \$38,000,000. To Great Britain our exports increased \$45,000,000, to Italy \$40,000,000, and to France \$33,000,000.

Our exports to principal countries during the seven months ending January 31, 1915, and for the same period a year ago, were as shown in Table I. Table II gives the total exports in values of principal commodities for the seven months ending January 31, 1915, and January 31, 1914. The grand total of exports for the seven months referred to was

\$1,334,000,000 in the fiscal year 1915, against \$1,521,000,000 during the same time the year previous. Investigation as to the countries

TABLE I

	1915	1914
Austria-Hungary.....	\$ 1,200,000	\$ 13,900,000
Belgium.....	10,700,000	39,600,000
Denmark.....	40,800,000	9,700,000
France.....	142,000,000	109,000,000
Germany.....	23,000,000	238,000,000
Italy.....	88,000,000	47,700,000
Netherlands.....	60,000,000	66,700,000
Norway.....	19,600,000	5,600,000
Russia.....	7,700,000	17,600,000
Sweden.....	33,800,000	8,800,000
United Kingdom.....	435,000,000	390,000,000
Canada.....	173,000,000	211,000,000

TABLE II

	1915	1914	Decrease
Agricultural implements.....	\$ 3,800,000	\$ 17,100,000	\$ 13,300,000
Railway cars.....	2,400,000	8,600,000	6,200,000
Copper and manufactures.....	50,600,000	84,000,000	33,400,000
Cotton.....	176,600,000	451,700,000	275,100,000
Cotton piece goods.....	13,600,000	18,000,000	4,400,000
Electric machinery.....	10,500,000	15,800,000	5,300,000
Phosphate rock.....	1,300,000	5,700,000	4,400,000
Twine.....	2,800,000	5,400,000	2,600,000
Furs.....	1,600,000	7,100,000	5,500,000
Hops.....	2,400,000	6,100,000	3,700,000
Iron ore.....	800,000	2,400,000	1,600,000
Pig iron.....	800,000	2,000,000	1,200,000
Cash registers.....	886,000	2,724,000	1,838,000
Engines.....	5,700,000	10,200,000	4,500,000
Sewing-machines.....	3,500,000	6,600,000	3,100,000
Typewriters.....	2,400,000	6,000,000	3,600,000
Machinery, total.....	4,500,000	69,000,000	64,500,000
Steel rails.....	2,000,000	7,500,000	5,500,000
Steel sheet plates.....	5,900,000	10,400,000	4,500,000
Structural steel.....	3,300,000	9,100,000	5,800,000
Tools.....	3,700,000	6,600,000	2,900,000
Steel production, total.....	104,800,000	155,000,000	50,200,000
Meats.....	87,700,000	89,300,000	1,600,000
Naval stores.....	5,400,000	12,700,000	7,300,000
Mineral oils.....	75,700,000	89,700,000	14,000,000
Tobacco.....	25,400,000	35,700,000	10,300,000
Woods and manufactures.....	29,100,000	61,800,000	32,700,000

in trade with which these losses occur reveals the importance of the part the war is already playing in our foreign trade. Some branches of exports have been seriously injured. Of the loss of \$13,000,000 in

agricultural implements, \$6,000,000 originated in the loss of trade with Russia and Argentina. Canada reduced her purchases of American agricultural machinery very largely. Canada also cut her purchases of motor cars fully \$4,000,000, and her purchases of bituminous coal \$7,000,000. In our copper shipments there was a tremendous decrease amounting to \$33,000,000 of which \$3,000,000 was credited to France, \$20,000,000 to Germany and \$10,000,000 to the Netherlands, while Great Britain increased her takings about \$5,000,000. At the end of January there had been a decrease in cotton exports amounting to \$275,000,000 in the aggregate, of which \$126,000,000 was credited to Germany, \$90,000,000 to the United Kingdom, and \$52,000,000 to France. These losses have, however, since been much reduced. In the item of cotton piece goods, there was a decrease of over \$4,000,000 due to a loss of practically that amount in our shipments to China. In hops the loss of exports was chiefly in shipments to Great Britain. The heavy loss of \$50,000,000 in iron and steel products is not satisfactorily explained by the government statistical reports in so far as the distribution of the losses among different countries is concerned. Since January 1, about 1,000,000 tons of steel products, valued at about \$30,000,000, have been ordered for export, an increase in business which will largely compensate for the earlier loss. The decreases, however, in sewing-machines and typewriters are widely scattered, showing that export conditions in neutral countries have been by no means satisfactory. During the seven months referred to, the United States shipped \$11,000,000 worth less of lard to Germany than last year. Losses in naval stores were chiefly confined to Germany and Great Britain. A very considerable reduction occurred in mineral oils, amounting to about \$14,000,000, which, however, was widely divided between various countries. Tobacco shows a loss of about \$10,000,000 in exports, chiefly in trade with the belligerent nations. Losses in wood and lumber products of \$32,000,000 were also striking.

A few of the principal articles of export which showed an increase during the months since the opening of the war are classified as shown in Table III. Practically all of the increases shown in this statement are in trade with the belligerent nations and are almost entirely due to the demands of war. The facts are that, while some important industries in the United States are benefiting very largely by the war, a much larger number of industries were obliged in the early months of the struggle to face a general decline of export trade. The result was a derangement whose effects are not likely to disappear until peace is restored. During

the past few weeks our exports have shown a remarkable preponderance over imports because of the reduction of purchases here and increased shipments of breadstuffs and war materials to foreign buyers.

TABLE III

	1915*	1914*	Increase
Breadstuffs.	\$301,300,000	\$111,500,000	\$189,800,000
Horses and mules.	26,000,000	2,000,000	24,000,000
Automobiles.	16,800,000	13,200,000	3,600,000
Knit goods.	7,000,000	1,600,000	5,400,000
Explosives.	9,200,000	3,300,000	5,900,000
Firearms.	5,800,000	2,200,000	3,600,000
Leather.	33,500,000	20,800,000	12,700,000
Wool, manufactures of.	13,000,000	2,700,000	10,300,000

*The figures are, as in Tables I and II, for the seven months ended January 31 of the respective years.

THE NEW "GOLD SETTLEMENT FUND"

The Federal Reserve Board on April 7 announced that it had completed preliminary arrangements for the establishment of a "gold settlement fund" to be held in Washington and used in liquidating balances between federal reserve banks. Taken in conjunction with the voluntary clearing plan announced for application within each federal reserve district, this clearing plan will practically put into effect a national system of collecting checks, applicable throughout the United States. The fundamental idea of the new plan is that of placing in the custody of the Federal Reserve Board in Washington a specific fund of gold or gold certificates, to be contributed by each federal reserve bank in the system and to constitute and to be counted as a part of its reserve. As the several reserve banks in the course of this business became indebted to one another under the new system, they would report to the Federal Reserve Board at Washington the amount due them, making such report once each week. These reports would be duly recorded in an appropriate set of books and as a result of the weekly settlement the ownership of the gold fund held in Washington would change from week to week; or in other words the several banks would be owners of this fund in varying proportions according to the amount of their claims upon other reserve banks and the amount of the claims of those other banks upon them.

Thus if the settlement fund started with \$1,000,000, to the credit of each federal reserve bank, those banks which had received more claims upon others than had been received by the others against them would, after a settlement, own more than their original proportion of the settle-

ment fund. Immediately after a second settling, the balance might swing back to its original position at the date of the first settlement or the movement might go still farther in the same direction as that recorded at the end of the first week's operations. In this way, the net claims originating in one part of the country and drawn against other sections of the country will be canceled by being offset against claims originating elsewhere. Final settlement must be made through the actual shipment of gold coin, or its equivalent, from one part of the country to another. If the number of member banks participating in the voluntary intra-district clearing plan should be sufficient to clear, through federal reserve banks, a representative volume of claims, the result would be the collection and cancellation at twelve points throughout the country of the bulk of the claims for money originating with the districts adjacent to those points. Then, through the settlement fund at Washington, the obligations of the several regions of the country would be offset against one another. If there were a balance against one particular district, this balance would be carried on the books of the settlement fund at Washington until such time as the original gold deposit might be exhausted through transfer to the account of another reserve bank. When such exhaustion had occurred, the bank whose funds had thus been used up in meeting its claims would be obliged to ship more gold, or else would have to obtain a rediscount of commercial paper from some one or more of the other reserve banks to which it had become indebted. Should it obtain such accommodation, the effect would be to restore its ownership in the gold fund at Washington, while its obligation to the bank from which the rediscount was obtained would be carried as a loan at prevailing rates of interest for the period for which the loan was obtained. If, at the end of that period, the bank had succeeded in securing a credit that would enable it to liquidate its obligations, the result would be to enable it to cancel its loan. Only in case exchange was persistently against such a reserve bank for a long period would it be necessary for such a bank to restore its credit at Washington through the actual shipment of gold or the equivalent thereof.

This clearance plan is the same in principle as that which was worked out for the Reserve Bank Organization Committee by a committee of experts who about a year ago recommended a general clearing system, one part of which involved the creation of a federal reserve clearing-house. In recommending the plan this committee said:

The plan herewith proposed is based upon the requirement that each federal reserve bank deposit with the Federal Reserve Board clearing-house all of

its gold beyond that which will be sufficient to take care of local needs. This gold deposit, carried on the books of each reserve bank in a separate item as a part of its reserve funds, can be used in either of two ways or in a combination of them to effect settlement. . . . Settlement need not be made between reserve banks oftener than weekly, since to require daily settlement might prevent the operation of the natural clearing effected by the interchange of ordinary business transactions. Therefore, at the close of business on each Thursday, each reserve bank would wire the clearing-house the amount of the balance and would state whether debit or credit relations exist between it and other reserve banks. Allowing one day, Friday, for adjustment of any differences in the advices received, the clearing would be effected on Saturday. How this shall be done depends upon a consideration of the following possibilities:

The gold deposited with the clearing-house may be credited upon a simple set of books to each bank so depositing. Clearing would then be effected by a charge and credit on the books, and advice would be made to the reserve banks. This is the simple plan, but it has one apparent disadvantage in that the banks would have no tangible evidence of the ownership of the gold other than a book credit. Consideration might, therefore, be given a plan of issuing certificates in large denominations against the proposed gold deposits as clearing-house currency certificates are now issued. Upon the direction of the Federal Clearing-House, the debtor reserve banks would mail these certificates to the creditor banks to pay balances. These two plans might be combined, so that, although the clearing of balances would be effected by book transfers of gold at the Federal Clearing-House, the debtor banks could anticipate this settlement by mailing certificates to creditor banks prior to the day of settlement. Both these plans, however, seem less effective and more cumbersome than the first plan. Very little (if any) gold would ever need to be transferred between the reserve banks, and such operations would be limited to transactions between the banks and the clearing-house. The banks, in turn, would be able to loan or borrow, buy or sell gold in dealing with each other, and the transactions would be arranged through book transfers at Washington.

It will be noted that the method which has commended itself to the Reserve Board is that of making merely a book transfer through a settlement fund at Washington, as suggested by the committee.

PROGRESS IN A NATIONAL CLEARING SYSTEM

The only element of the general clearing plan provided for in the Federal Reserve act for which no provision has thus far been made is that of the inter-district clearing of member banks' checks. The Federal Reserve act evidently contemplates the acceptance of checks by member banks drawn upon any member banks in the system whether within or without the district in which the receiving member bank

happens to be located. Such checks would naturally be cleared through the federal reserve banks of the districts in which the receiving member bank and the bank upon which the checks were drawn were situated. Clearance of such checks would largely increase the volume of transactions passing through the clearing system, and it has therefore been determined to defer any action with reference to this phase of the new system. Meanwhile the task of establishing the gold settlement fund and of bringing about the proper adjustments of the federal reserve banks of the several districts and the central office at Washington will require some time.

Current discussion has appeared to regard the new clearing plan as equivalent to an acceptance of the so-called central-bank principle in the federal reserve system. The idea of the clearing plan is embodied in the Federal Reserve act itself inasmuch as the measure authorizes the Federal Reserve Board to act as a clearing-house for federal reserve banks. This, however, does not involve any necessary acceptance of the so-called central-bank principle, except in so far as co-operation and the cancellation of credits are incident to all banking. The joint action of the federal reserve banks appears to lessen the necessity of money shipments from one part of the country to another just as the joint action of the member banks in the federal reserve district appears to lessen the necessity for direct exchanges of currency between the banks of such district, all transfers of funds being made, under the new system, through the federal reserve bank of each district, which liquidates the items deposited with it by canceling them against one another.

It is evident that the scope of the whole plan will depend upon the success of the intra-district system of clearing for which provision had already been made. The reserve banks have now in most cases definitely acted upon the intra-district clearing plan which received the approval of the Federal Reserve Board, and have sent out to their members circulars, practically identical in tenor, embodying the substance of this plan.

A general description of the new system is afforded in the circulars referred to, in substantially the following language:

The Federal Reserve Bank of ——— in accordance with the terms of the Federal Reserve act and the rulings of the Federal Reserve Board, is prepared to inaugurate, for the benefit of its members, a system of intra-district collection; that is, a system of collection of checks and drafts received from and drawn on member banks in its own district. Membership in the system will be voluntary and checks and drafts will be received only from and upon those banks which join it. Such items will be immediately credited and debited to

the accounts of the sending and paying banks respectively, subject to payment in every case at the counter of the member bank on which they are drawn.

For the present the system will not include the inter-district collection of checks and drafts; that is, the collection of checks and drafts drawn on banks outside of this district. Such broader service can only be developed for the member banks of the various districts after experience shall have been gained in operating the intra-district service now offered.

This system is not intended to supersede the exchange of checks through local clearing-houses or otherwise in or between near-by cities or towns, and checks will not be received for collection from a member bank which are drawn upon member banks in the same city, where a clearing-house is at present in operation. Wherever the collection of checks is now being made more quickly or economically by direct interchange between the banks of the section than would be possible under the proposed plan, such relations will doubtless continue.

The collection system outlined herein is offered by the Federal Reserve Bank of ——— as the first step in the development of a plan for the collection of checks through the federal reserve banks.

The principal rules of a general nature which are prescribed with reference to the working of the new system, these also being substantially uniform on the part of the banks, are as follows:

1. Each member bank joining the system authorizes the Federal Reserve Bank of ——— to charge immediately on receipt against its account, subject to payment by such member bank at its counter, checks and drafts payable upon presentation drawn upon it, deposited with the Federal Reserve Bank by other member banks which have joined the collection system.

2. The member bank undertakes to provide the Federal Reserve Bank with sufficient funds to offset the items charged against its account under the collection system, without impairing the reserve required to be kept in the Federal Reserve Bank of ——— as shown by the books of the Reserve Bank, the amount of such funds to be determined by experience gained from actual operation.

3. Checks and drafts payable on presentation, drawn on any member bank in this district which has joined the collection system, will be received for immediate credit subject to final payment, but only from such member banks as have joined the collection system.

4. Items sent for credit should be divided in two classes:

- a) Items on member banks which are members of the ——— Clearing-House Association.

- b) Items on other member banks in this district.

6. In receiving the checks and drafts herein referred to, the Federal Reserve Bank of ——— will act only as the collecting agent of the sending

bank, will assume no responsibility other than due diligence and care in forwarding such items promptly, and is authorized to send them for payment direct to the bank on which they are drawn.

7. Checks and drafts drawn on member banks which have joined the system may be stamped or printed across the face, "Collectible at par through the Federal Reserve Bank of Boston," but such indorsement shall never be held to imply that the Federal Reserve Bank of Boston, in accepting such checks or drafts for collection, has become the owner thereof or is acting otherwise than as the agent of the sending bank.

8. Member banks which do not join the collection system at the time of its organization may do so at any subsequent time. Member banks will be permitted, on thirty (30) days' notice to the Federal Reserve Bank of —— to withdraw from the collection system; the Federal Reserve Bank of —— may, at its discretion, withdraw the privileges of the collection system from any member bank which fails to observe these rules and requirements, or for other good and sufficient reasons.

On the first and fifteenth days of each month, all changes, if any, which have occurred in the list of members of the collection system since the preceding notice, will be published, and immediately thereafter the additions or withdrawals listed herein shall become effective.

9. No exchange charge will be made nor will any exchange charge be paid by the Federal Reserve Bank of Boston in operating this collection system, which is a reciprocal arrangement for the mutual benefit of all member banks which join it.

The next step in the development of the proposed system will be the establishment and publication, as indicated in the foregoing regulations, of what is there described as a "par list." This par list must, in order to make the system successful, include a fair proportion of the banks, particularly those of larger capital, in each of the federal reserve districts. The question has been asked, "What will induce member banks to enrol themselves on the par list, as by so doing they will probably subject themselves to a loss of exchange charges?" The motive force which is likely to operate to overcome any doubt on the part of some at least of the member banks is the fact that if one bank included in a group of competitive institutions should become a member of the system, the result would be to popularize the bank thus entering its name on the par list with the community generally, inasmuch as checks drawn on that bank would be collectible without exchange. This result might be expected, after sufficient time had been allowed for the operation of the system, to force other banks to enrol themselves upon the par list, and the same considerations would, to some extent, influence the action of state banks by inducing them to become members of the

federal reserve system itself, in order to gain the advantages of clearance, if they should find themselves able to do so without undue expense. In this case, as in all other cases where competition is relied upon to obtain a given result, the principal difficulties are likely to be experienced at starting, inasmuch as, at that time, the inertia growing out of older conditions which have to be altered is much greater than at any other period. It remains to be seen to what extent, and how soon, those who are members of the federal reserve system will accept the clearing plan by authorizing the enrolment of their names on the par list, and how far such action on the part of a substantial number of member banks will influence outside banks to join the system. Probably some months will necessarily elapse before a very definite opinion with reference to the working of the plan in these particulars can be expressed.

THE TRUST COMPANIES AND THE FEDERAL RESERVE ACT

In the process of carrying into effect the provisions of the Federal Reserve act, the Federal Reserve Board has encountered an unexpected difficulty. The Federal Reserve act in subsection (*k*) of section 11, provided that the Board might, when such action was not in contravention of state or local law, grant to national banks the power to exercise the functions of trustee, executor, administrator, and registrar of stocks and bonds. Regulations stating the conditions under which these powers might be applied for were not issued by the Federal Reserve Board until February 15, 1915, but, as soon as they had been placed in circulation, a considerable number of applications were at once filed. Trust companies in a number of states, and state banks in several others, believing that the competition to which they would be subjected by national banks, should the latter be vested with the right to exercise the desired powers, would be injurious, immediately undertook to secure action by state authorities designed to prevent the extension of the functions referred to. In several states legislation has already been enacted at the instance of state banks or trust companies, or both, prohibiting the exercise of such functions, and in several more there has been a refusal on the part of the state legislatures to enact any measure removing the existing disabilities from national banks and permitting them to exercise the functions referred to, should they be empowered so to do by the Federal Reserve Board. In other states, the contest is still in progress and bids fair to continue active for a good while to come. On the other hand, a number of states, particularly in the West and Middle West, have already enacted enabling legislation under which national banks may exercise

the functions authorized by the Federal Reserve act, subject to the supervision and control of the Federal Reserve Board.

The trust companies, recognizing that their opposition to the provisions of the Federal Reserve act in this respect has been in part ineffectual, have obtained adverse legal opinions¹ and arranged to file suit desired to test the constitutionality of the provision in the act to which objection is thus taken. Such a suit will be designed to test the question whether Congress has power to grant authority of the kind specified to federal reserve banks or to any other corporation whatever, and, should the decision be adverse to the power of Congress, national banks would be unable to exercise the functions in question even in those states in which local law was favorable, and in which, therefore, it was manifest that the people were desirous that national banks should be empowered and authorized to do such work.

The point at issue is one which involves more than the mere business interests of the trust companies of the country, it being essential to the question whether or not the effort of the framers of the act to obtain a unification of the banking system shall or shall not be successful. The act, as is well known, provided for the admission of state banks as members of the federal reserve system upon a practical equality of privilege with national banks. In order to offset the favorable position thus given to state banks, and thereby to remove any incentive that might otherwise exist for national banks to surrender their charters and re-charter under state law (becoming members of the federal reserve system at will, if so disposed), the Federal Reserve act granted them the trust-company powers which are now under discussion. It was felt that by so doing national banks would be enabled to exercise some of the profitable functions heretofore exercised only by trust companies, and that under these conditions they could afford to bear the competition to which they would be subjected through the entry of trust companies into the federal reserve system, vested, as most of them are, with full commercial banking powers in addition to their other rights. To hold that the Federal Reserve act is unconstitutional in respect to the provisions cited, would produce a state of affairs in which, while national banks were subjected to the rigid regulations already applicable to them and were prohibited from engaging in trust business, the trust companies (already authorized to exercise so wide a range of functions) would be

¹ The most noteworthy of these—that of John G. Johnson of Philadelphia—is published in full in the *Commercial and Financial Chronicle*, New York City, April 17, 1915, p. 1313.

able to present themselves to the public as qualified to compete on equal terms with the national banks already in the system. This makes it evident that the real question at issue in the trust company discussion is the extent to which the Federal Reserve Board shall be permitted to proceed with its effort to harmonize and unify the banking system of the country by bringing about a general federation of all commercial banks under its jurisdiction. The Federal Reserve Board has, however, taken no part in the actual legislative discussion in the various states, contenting itself with merely announcing that it was in sympathy with the effort to give effect to the trustee and executor provisions of the Federal Reserve act.

THE MAIL-PAY ISSUE

The controversy between the government and the railroads of the country has developed during the past month in three important ways: (1) The express companies have filed with the Interstate Commerce Commission a lengthy brief in which they set forth the inadequacy of the compensation they are receiving under the express-rate system prescribed by the Commission about two years ago, and appeal for a higher scale of return; (2) The government and the railroads have filed briefs in the pending suit for the payment of arrears of mail pay alleged to be due the roads because of the additional weights of mail, imposed on them by the present weighing system and not contemplated at the time the system of payment on the basis of weight was established; (3) the Postmaster-General has issued an authorized statement alleging that the roads have been resorting to extreme measures in their effort to secure a higher rate of remuneration from Congress, and to defeat the plan of mail pay recommended by the Post-Office Department, while he again announces his unaltered adherence to the plan set forth in the administration bill introduced at the last Congress providing for the establishment of a new system of mail pay. It is now certain that the controversy between the government and the roads will be continued during the new session until a definite decision is arrived at, one way or the other, by the legislative branch of the government.

It has become evident that the whole question of remuneration to the railroads must be reconsidered and readjusted before a final settlement can be reached. As will be remembered, the original parcel-post rates were established at about the same time that the express-rate system was created by the Interstate Commerce Commission and were, under the terms of the act, submitted to the Commission for its approval. The Commission might at that time have revised its express rates.

This indeed would have been the logical step because of the fact that the new postal rates would inevitably apply in competition between the companies and the government, particularly for the transportation of short-distance small-parcel business. The Commission, however, had then only recently completed its schedule of rates for express packages and was meeting with difficulty in putting them into effect. It was not inclined to revise the express rates; nor was there sufficient decision among the members to bring about the readjustment of the postal rates proposed by the Post-Office Department. In consequence, the two systems of rates went into effect side by side. It speedily appeared that the express companies could not endure the competition of the parcel post in many branches of business, but must unavoidably lose trade to the government. This loss meant a reduction in their payments to the railroads; and to such an extent has the general cut in business been operative that one express company has already retired from the field. While the roads have thus been losing express revenue, they have been obliged to carry the freight transferred to the postal service, without corresponding pay, finding it necessary, of course, to provide the additional facilities necessary to handle the traffic, at their own expense.

The only thorough method of dealing with the situation, will be that of bringing about a readjustment of relationships between the government, the express companies, and the railroads. This involves revising the payments to the express companies, changing the parcel-post rates, and determining a suitable basis of mail pay corresponding to the cost of carrying postal matter of all classes. The latter is exceptionally necessary in view of the fact that a transfer of business to the Post-Office at a loss to the express companies throws upon the railroads a double burden, while at the same time the government is unable to effect a proper adjustment in charges because it does not know the expense it is itself incurring in carrying the mail. Should the Interstate Commerce Commission hand down a decision in the express companies' appeal for higher rates, within the next few months, as it probably will, the situation will be clearer, and the matter can be presented with greater assurance to Congress at the opening of the new session for general conclusion and determination. Should Congress fail to settle the whole issue upon a thorough and satisfactory basis at the coming session, it will be only a question of time when the situation under present influences will become so seriously aggravated as to make a general legislative debate dealing with the whole issue practically unavoidable.